

Message Text

CONFIDENTIAL

PAGE 01 JAKART 10535 261127Z

44

ACTION EB-11

INFO OCT-01 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00 CIEP-03

COME-00 DODE-00 FEAE-00 FPC-01 H-03 INR-11 INT-08

L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01 SCI-06

SP-03 SS-20 STR-08 TRSE-00 FRB-03 AF-10 ARA-16 EA-11

EUR-25 NEA-14 PA-04 PRS-01 USIA-15 DRC-01 OPIC-12

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R 260935Z AUG 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 4081

INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY CARACAS

USEC BRUSSELS 176

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY QUITO

AMEMBASSY ROME

AMEMBASSY SINGAPORE

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

USINT ALGIERS

USMISSION OECD PARIS

AMCONSUL MEDAN

AMCONSUL SURABAYA

C O N F I D E N T I A L JAKARTA 10535

EO 11652: GDS

CONFIDENTIAL

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PAGE 02 JAKART 10535 261127Z

TAGS: ENRG ID

SUBJ: ENERGY: PETROLEUM POLICY

REF: A. JAKARTA 10163(NOTAL)

B. JAKARTA 9057(NOTAL)

C. JAKARTA 9702(NOTAL)

1. SUMMARY. OUR CONVERSATIONS WITH PERTAMINA AND OIL COMPANY REPS AND RECENT STATEMENTS BY GOI OFFICIALS INDICATE GOI/PERTAMINA HAVE STATED INTENTION TO LIMIT CRUDE OIL CRODUCTION, IF NECESSARY, TO MAINTAIN PRESENT OIL PRICE. WHILE WE INTEND TO CONTINUE PROVIDING GOI/PERTAMINA WITH FACTUAL INFORMATION ON OIL MARKET CONDITIONS TO SUPPORT USG POSITION ON PRICE, WE DOUBT (IN ABSENCE DRAMATIC NEW DEVELOPMENTS) FURTHER DEMARCHES ON OIL PRICE LIKELY BE FRUITFUL. END SUMMARY

2. DURING CONVERSATION AUGUST 12 PERTAMINA WASHREP (BENSON) TOLD EMBOFF THAT GENERAL IBNU (PERTAMINA PRES DIR) RECENTLY TOLD HIM GOI/PERTAMINA WOULD LIMIT OIL PRODUCTION, IF NECESSARY, TO MAINTAIN PRESENT OIL PRICE OF \$12.60 FOB

3. BENSON'S REPORT WAS CONFIMRED BY LOCAL OIL COMPANY MANAGER WHO SAID GOI DIRECOTATE OIL AND GAS (MIGAS)/PERTAMINA REPS MET WITH PRODUCING OIL COMPAN MANAGERS LAST WEEK TO INFORM THEM OF PRICE/PRODUCTION POLICY. MIGAS OFFICIAL REPORTEDLY OPENED MEETING BY SAYING, "RECENTLY USG OFFICIALS HAVE BEEN TRAVELLING AROUND WORLD URGING PRICE DECREASE AND PRODUCTION INCREASES. WE JUST WANT TO LET YOU KNOW THAT IT IS GOI POLICY TO LIMIT PRODUCTION, IF NECESSARY, TO MAINTAIN PRESENT PRICE."

4. ON AUGUST 20 MIGAS DIRECTOR WIJARSO TOLD EMBOFF HE RECENTLY INFORMED CALTEX THAT PERTAMINA WAS REDUCING REFINERY RUN OF LOW SULPHUR WAXY RESIDUE (LSWR) BASED ON CALTEX CRUDE FEEDSHQCK BECAUSE OF SLACKENED JAPANESE DEMAND. THIS RESULTED IN DE FACTO REDUCTION OF CALTEX PRODUCTION. WIJARSO OBSERVED, "WE ARE DOING WHAT WE CAN SO THAT MR BENNETT OF YOUR TREASURY DEPT DOES NOT HAVE TO WORRY TOO MUCH ABOUT THE OIL SURPLUS." WIJARSO SAID HE PLANNED ATTEND SEPTEMBER 12 OPEC MEETING
CONFIDENTIAL

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PAGE 03 JAKART 10535 261127Z

"TO LISTEN."

5. IN RESPONSE EMBOFF QUESTION AUGUST 21, IR TRISULO (PERTAMINA DIRECTOR FOR EXPLORATION AND PRODUCTION) ALSO SAID GOI/PERTAMINA WOULD LIMIT PRODUCTION, IF NECESSARY, TO SUPPORT PRICE. HE ASKED RHETORICALLY, "WHY SHOULD WE DO ANYTHING TO REDUCE PRICE WHEN COMMODITY PRICES KEEP GOING UP?" HE CITED OVER 100 PCT INCREASE IN STEEL AND

STEEL PRODUCTION

RICES DURING LST SIX MONTHS AS EXAMPLES OF RISING COMMODITY PRICES. (WE HAVE POINTED OUT THAT COMMODITY PRICE INCREASE AND OIL INCREASE NOT COMPARABLE, BUT CONVENTIONAL LDC WISDOM STILL PREVAILS).

6. OTHER STATEMENTS WE HAVE RECEIVED FROM SIGNIFICANT INDONESIAN INDICATE INCREASINGLY STRIDENT REJECTION OF OUR POINT OF VIEW ON OIL PRICES. WIJARSO (TO WHOM WE MADE REPRESENTATIONS ON JULY 22-REFTEL B) RECENTLY EXPRESSED VIEW DURING TELEVISION INTERVIEW (REFTEL C) THAT, INSTEAD OF DECLINING, BULK OIL SALES PRICES SHOULD GRADUALLY RISE. WIJARSO RECENTLY PASSED EMBOFF COPY OF JULY 15 EDITIRIAL ("OQINION") OF ARAB OIL AND GAS JOURNAL INDICATING GENERAL AGREEMENT WITH SUBSTANCE OF ARGUMENTATION. ALI MURTOPO CLOSE CONFIDENT OF PRESIDENT SUHARTO, TOLD THE NATIONAL ENERGY SEMINAR IN JAKARTA IN JULY: "THEIR (DEVELOPED COUNTRIES) SHRIEKS OF 'CRISIS' AND 'OIL THREAT' ARE, IN FACT, FEAR: FEAR OF THE DEMANDS OF THE POORER COUNTRIES ON THE WASTING OF NATURAL RESOURCES BY THE INDUSTRIAL COUNTRIES. THEY CONSTITUTE ANNOYANCE THAT THEY CAN NO LONGER WASTE ONE OF THE MOST IMPORTANT SOURCES OF ENERGY, ANNOYANCE BECAUSE IN THIS WAY THEY ARE BEING FORCED TO CHANGE THEIR WAY OF LIVING AND THINKING WHICH SO FAR, AS IT WERE, HAS HAD TO BE CONSIDERED 'GIVEN' BY THE POORER COUNTRIES."

7. COMMENT IN VARIOUS WAYS WE HAVE, I FEEL, ALREADY RECEIVED INDONESIA'S RESPONSE TO OUR DEMRCHE ON OIL PRICES. EDITORIALS REPORTED IN REFTEL AND COMMENTS REPORTED ABOVE POINT TO FACT THAT INDONESIA ACCEPTS NEITHER OUR VIEW NOR OUR SOLUTION TO PRESENT PETROLUEM PRICE SITUATION.

8. IT IS NOW CLEAR THAT IN EVENT OF CONTINUED OIL
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 JAKART 10535 261127Z

SURPLUS INDONESIA LIKELY TO JOIN OTHER PRODUCING STATES IN PRODUCTION CURBACKS RATHER THAN GIVE CONSIDERATION TO PRICE REDUCTION. THEY DO NOT DISPUTE THERE IS CURRENT GROWING SURPLUS BUT THEY BELIEVE THIS IS SHORT-TERM PHENOMENON. THEY CLEARLY DO NOT ACCEPT OUR VIEW THAT CONTINUED HIGH PRICES WILL ADVERSELY AFFECT THEIR TRADITIONAL MARKETS, PARTICULARLY JAPAN. WE SUSPECT, IN FACT, THAT INDONESIA'S STATED INTENT TO CUT PRODUCTION RATHER THAN PRICE CONTAINS LARGE MEASURE OF OPTIMISM THAT IF MARKET SOFTENS IN JAPAN, INDONESIA WILL TAKE MINIMAL IF ANY CUT BUT LARGELY WILL PICK UP LOSSES BY MID-EST SUPPLIERS. THEY ARE REGRETTABLY INDIFFERENT TO PLIGHT OF LESS DEVELOPED COUNTRIES WHERE HOWEVER, INDONESIA DOES VERY LITTLE OIL MARKETING.

9. PRESIDENT SUHARTO'S PREOCCUPATION WITH INDONESIA'S DEVELOPMENT NEEDS, RISING COSTS OF IMPORTS, AND MAJOR PROJECT OVER-RUNS LEAD HIM QUICKLY TO AGREE THAT INDONESIA SHOULD KEEP HIGH PRICES AND CONSERVE ITS FAVORABLE SUPPLHUR FREE CRUDE. GENERAL IBNU AND PETROLUUM BUREAUCRACY ARE OF SIMILAR MIND.

10. WE WIL CONTINUE PROVIDE TO GOI SUCH FACTUAL INFORMATION AS WE CAN OBTAIN ON OIL MARKET CONDITIONS AND EFFECT OF PRICES ON TRADITIONAL MARKETS. WE BELIEVE, HOWEVER, THAT IN ABSENCE DRAMATIC NEW DEVELOPMENTS, FURTHER DEMARCHES ON OIL PRICES LIELY TO BE INEFFECTIVE OR EVEN COUNTERPRODUCTIVE UNLESS WE CAN DEMONSTRATE MORE CLEARLY PERILS OR OFFSHORE BENEFITS TO INDONESIA.
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